

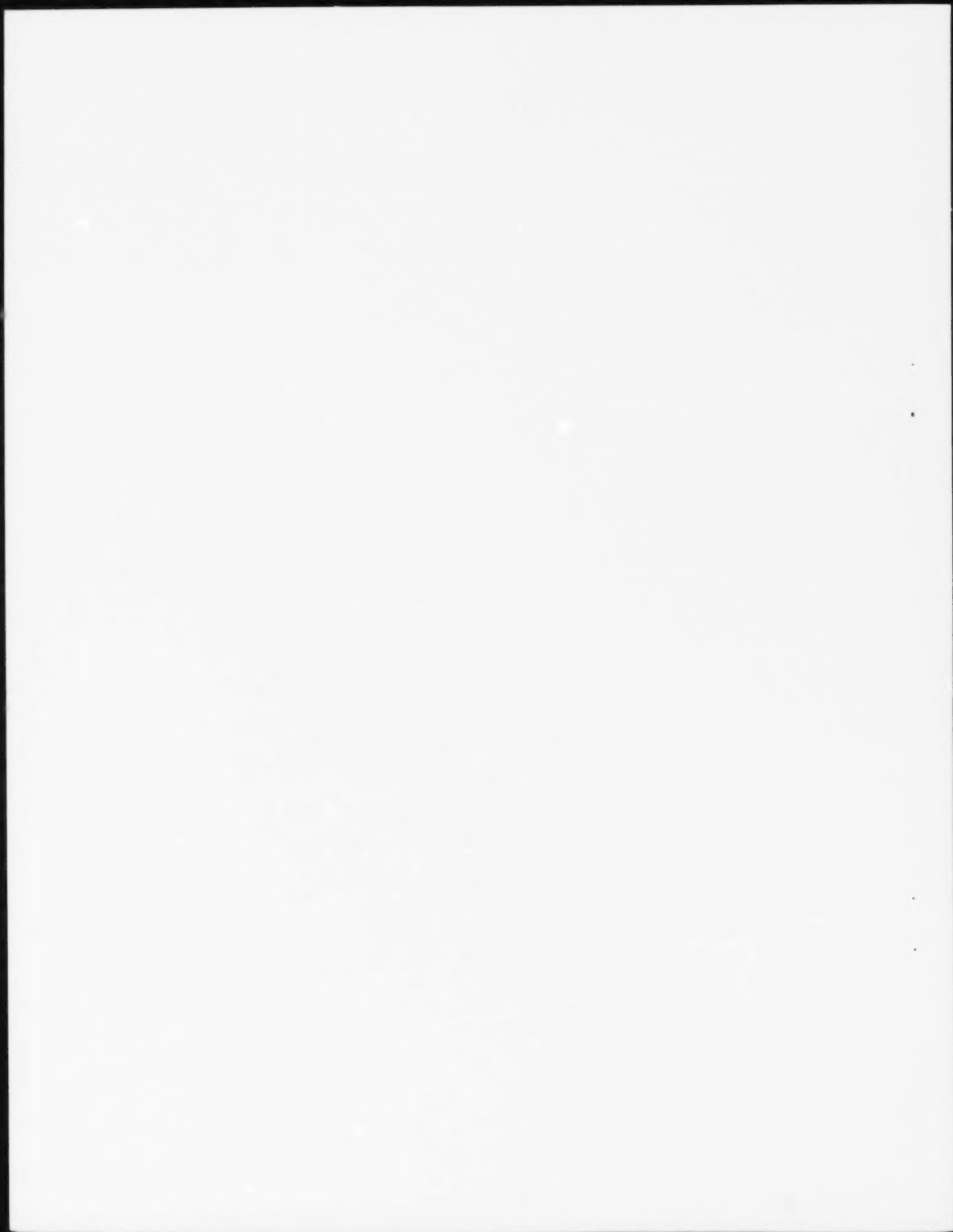


Northwest Territories Legislative Assembly

Standing Committee on Governance and Economic Development

Report on the Review of Bill 13:
Hotel Room Tax Act

Chair: Mr. Floyd Roland





March 1, 2001

THE HONOURABLE ANTHONY (TONY) WHITFORD, MLA
SPEAKER OF THE LEGISLATIVE ASSEMBLY

Mr. Speaker:

Your Standing Committee on Governance and Economic Development has the honour of presenting its Report on the Review of Bill 13: *Hotel Room Tax Act* and commends it to the House.

Floyd Roland, MLA
Chair

**MEMBERS OF THE STANDING COMMITTEE ON
GOVERNANCE AND ECONOMIC DEVELOPMENT**

Floyd Roland
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MLA Range Lake
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MLA Hay River North

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MLA Tu Nedhe

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Committee Clerk

Shirley J. Johnson
Committee Researcher

Katherine Peterson
Law Clerk

Report on the Review of Bill 13: Hotel Room Tax Act

Introduction:

The Standing Committee on Governance and Economic Development is pleased to report on its review of Bill 13: *Hotel Room Tax Act*.

This Committee Report was prepared by Members of the Standing Committee on Governance and Economic Development: Floyd Roland, Chair, Sandy Lee, Deputy Chair, Bill Braden, Paul Delorey, David Krutko, and Steven Nitah.

The Minister of Finance, Joe Handley introduced Bill 13 for first reading in the Legislative Assembly on November 7, 2000. On November 8, 2000 the Hotel Tax Act received second reading on the principle of the Bill by a narrow margin of a 10 – 8 vote. The Bill was referred to the Standing Committee on Governance and Economic Development. Under the Rules of the Legislative Assembly, the Standing Committee has 120 days to review and report on the Bill.

The Standing Committee met on several occasions to discuss and review the background research material and legal issues. The Committee also conducted public hearings on Bill 13 during the week of February 5-9, 2001 in Inuvik, Hay River, and Yellowknife.

Prior to the hearings, the Committee placed advertisements in every newspaper in the Northwest Territories informing the public of the Committee's review, inviting oral presentations and written submissions and advising that applications for travel assistance would be considered by the Committee. Public service announcements were also aired on northern radio stations and notices were placed on community television channels, where available. Media advisories were sent advising the press where hearings would be held. The Committee also provided packages with detailed explanatory material about Bill 13 and an offer of assistance to appear before the Committee to over 200 identified interested parties.

The Standing Committee on Governance and Economic Development would like to thank all of the individuals and organizations who made their views known to the Committee at the public hearings or by written submissions. The comments and suggestions were of great assistance to the Committee and were carefully reviewed by the Committee during its deliberations.

Appendix 1 to this Report contains a list of witnesses who appeared before the Committee. Appendix 2 is a list of the individuals or organizations that provided written submissions, which were received and considered by the Committee. Copies of submissions and/or transcripts from the public hearings are available upon request.

Background to Bill 13: *Hotel Room Tax Act*

In mid October 2000, during the Committee's review of the 2001-2004 Business Plans, the Department of Finance included as a key strategy, the implementation of a hotel room tax. The Committee Report (TD 102-14(3)) noted:

"The Committee remarked that hotel tax revenues have already been incorporated into the Government's revenue and expenditure projections even though the tax has not yet received legislative approval. Committee Members noted that tax legislation should receive the same level of stakeholder consultation and Committee consideration as other legislation. A Member observed that the Government might be fast-tracking the proposed hotel tax without due process. According to the Department, the hotel tax is expected to generate about \$1.3M. Administration fees are expected to be \$150K."(p.12)

Tabled document, "*NWT Tourism – The 2006 Challenge, Towards a Tourism Strategy*" (TD 50-14(3)), referred to as a "rolling draft", noted at p.14:

"Government and the tourism industry have also discussed ways to increase funding. A new Hotel Accommodation Tax is currently proposed."

On November 8, 2000 the Minister of Finance indicated during second reading of Bill 13 that more money was required to improve the tourism industry. The Minister noted that, while worldwide tourism is growing, there is every indication that the situation in the Northwest Territories is not keeping up with the pace. During debate on the principle of the Bill the Minister gave some indication that the revenues collected from this tax would be put towards tourism strategies in an attempt to boost northern tourism.

Objectives and Design of the *Hotel Room Tax Act* :

The Bill establishes :

- a 5% tax on the price of accommodations at hotels, motels, lodges and other such establishments,
- a procedure to register operators of accommodation and authorizes the operators to collect the tax, and
- sets out enforcement provisions to ensure the tax is paid, collected and remitted in accordance with the Act and the regulations.

The tax does not apply to lodging in a place with less than five sleeping units and other accommodation exempted by the regulations.

Every operator of an accommodations business will have to:

- register to obtain a registration certificate (like a business license) from the government and keep it current,
- assign values to the value of accommodation that they sell to customers;
- collect the tax from customers,
- remit the tax to the government together with a return,
- obtain government clearance to sell the land or accommodation building or its stock in trade. The clearance certificate will certify that all of the hotel tax owing has been paid, and
- maintain proper books and records that will keep track of the amount owing, collected, remitted and paid or refunded.

The Bill also contains detailed penalty, enforcement and appeal sections.

What We Heard:

In opening comments at the outset of every public hearing the Chair advised that the tax was a government initiative and it was the Committee's responsibility to hear the views and comments of the residents of the Northwest Territories. The Chair confirmed that, after careful consideration, the Committee would report those concerns back to their colleagues in the House. Despite this reassurance the Committee continually heard from various stakeholders that, Bill 13 was a "done deal". Jack Rowe, a Hay River operator (Homesteader's Inn) wrote "Precedence proves that once Cabinet makes up their mind on a particular item it becomes a way of life and the individuals adapt".

Government Survey (Nexus Report):

There was agreement among all stakeholders that some parts of the Northwest Territories tourism industry have been in steady decline as government investment in tourism has been cut back. The government commissioned the Nexus Group to conduct a survey of hotel owners (Nexus Report) and on page 3 the Report states:

"As evidence, they pointed to the fact that government investment in tourism marketing that peaked in the early "nineties" at over 1.2 million dollars had fallen to just under \$550,000, the lowest of any jurisdiction in Canada. Compounding the cuts in the marketing budget was the elimination of the regional tourism zone associations."

However, the Nexus Report also found that "certain tourism sectors, big game outfitting and aurora viewing have been able to maintain or strengthen their positions in the market place"(p.3).

The Committee heard many times that there was vast potential for tourism to provide the residents of the Northwest Territories with a source of income and employment that does not depend on megaprojects or the fluctuating price of oil or natural gas. However, there is now a serious need to make the necessary investment to capture this potential. There was general agreement among all stakeholders that there is an urgent need for the development of a strong NWT image or identity and for the promotion of the NWT as a "destination" place.

The Committee notes that the Nexus Report states that "many operators felt that increased funding was not the only solution and that government support for the industry could be better rationalized, particularly, in conducting market research and in working closer with the NWTAT (NWT Arctic Tourism Association) in planning for the development of the industry". (p.4)

The Committee also notes with interest that, the Nexus Report found that "the credibility of estimates about the revenues to be generated from the tax and the cost to the government of collecting the tax was an issue." (p.3) This concern was heard again and again during the public hearings.

Hotel and Tour Operators:

Overwhelmingly, the Committee heard negative criticism and outright opposition rather than support for the hotel room tax. Many of those who spoke at the public hearings appeared to give reluctant or very qualified support for the tax. The support that was given appeared to be based on the assumption that if there was no hotel room tax, there would be no new financial investment in the industry by government.

In Inuvik, Dennis Zimmerman, Manager of Inuvialuit Tourism, Arctic Nature Tours, owned by the Inuvialuit Development Corporation advised the Committee:

"With respect to the hotel tax, or what is being thrown around now and being called the travel adventure tax, I reluctantly support the tax. No one likes the tax, especially when it is being perceived as coming off the backs of our own industry. We wish the money could have been created from somewhere else. In some respects, we feel we are being held hostage and forced to accept this new revenue which we desperately need." (Committee transcript, p.3)

Vince Brown, Chief Financial Officer for the Inuvik Mackenzie Delta Hotel Group told the Committee:

"Every single business, every single person within this town benefits from tourism, even if they are not directly engaged in a tourism type of

business. So it follows that perhaps every business should share in the burden of collecting and remitting this tax. Maybe this is because the government might underestimate the effect of a five percent price increase and how the consumer perceives it. It does not seem that much really, but it is enough, believe me, in a lot of cases for somebody to: (a) choose a different place to get lodging, whether it is changing from a hotel to a bed and breakfast; or even to rent an apartment, which may be the case of a lot of long term lodgings....." (Committee transcript, p.15)

The Committee heard some operators question the profile of the type of "tourist" who would be paying the accommodation tax. In Hay River, Don Fergusson (Caribou Inn/ Migrator Inn/ Pelican Rapids Inn, Fort Smith), Vice President of the NWT Hotel Association told the Committee:

"According to our Northwest Territories survey*, roughly 50 percent of all travel within the Northwest Territories is Government of the Northwest Territories employees, their agents or contractors and groups and individuals funded directly or indirectly by the Government of the Northwest Territories. Eighty percent of all travelers in the Northwest Territories are residents of the Northwest Territories. We are not taxing tourists, we are taxing ourselves." (Committee transcript, p.17)

*(The survey referred to was undertaken by the NWT Hotel Association.)

The Committee heard varying percentages quoted as direct or indirect expenditures for government related duty travel. The Committee does however note that a large portion of the users of accommodation which would be affected by the hotel room tax are either employees of the Government of the Northwest Territories, its agencies or contractors carrying out "duty travel".

The Committee heard a number of times from operators that the exemption of bed and breakfast operators with less than 5 rooms jeopardized their competitive position and many of them stated that the tax, if instituted, should be made more broad based and should apply to all bed and breakfast operators.

Committee members are concerned about the lack of buy-in or involvement of the industry stakeholders with respect to the new tourism strategy. Very few operators indicated that they were familiar with or had been asked for their input into the document *"Setting a Course for Action: 2001/2002 Business Plan"*. This document is an annual action plan that is based on a five-year tourism strategy. It is an integrated business plan, which outlines new initiatives for both the NWTAT and the Department of Resources, Wildlife, and Economic Development's (RWED) business plan for tourism activity in 2001/2002.

As with other operators, Beth Phillip, representing the Snowshoe Inn in Fort Providence, advised the Committee she had yet to see a copy of the business plan. She told Members:

"It is not so much that I do not think the money generated will benefit tourism, I do. I just do not think I am going to see any of it. That is what makes me mad. I just need it to be equitable. I would love it if those dollars that I put in the pot generate the kind of money that you say the Yukon is, for example. They put all that money into it and they generate a lot of tourism dollars. Well, that would be great, I just do not see how that is going to happen the way it is proposed right now." (Committee transcript. p. 39)

In Yellowknife, Harry Symington, President and Chief Operating Officer of Regency International Hotels (Explorer Hotel and Discovery Inn) and President of the NWT Hotel Association, told the Committee about the fragile nature of the hotel industry and his organization's marketing efforts:

"Myself, as a hotelier, I invest over \$300,000 in marketing my product, and I market it, I visit China, Japan, Hong Kong, Taiwan, and I went to Korea this year. We spend the money to drive this traffic here, and with no support or help from the government. But I do believe that it is still very fragile, and we are very much in the hands of the operators, that is the tourist operators who come out of Vancouver and these particular countries. At the moment we are dependent on the Japanese, and I would say without any reservations at all, that we have no guarantee for business like this next year. In fact, the competition is so fierce it is unbelievable" (Committee transcript. p. 41)

Lodge Operators / Outfitters Association

At the public hearing in Hay River, Don Fergusson, (Vice-President of the NWT Hotel Association) told the Committee:

"The Northwest Territories Arctic Tourism apparently have a lot of people that are supporting them, but I have not talked to them, I do not know who they are. In this region, I know for sure that the majority of the lodge owners are against this proposal and these are the ones that I understand that are supposed to be benefiting from this tax. They do not want it. The hotels do not want it either. I really think our MLA's should listen to this." (Committee transcript, p.47)

John Pollard, a former Member of the Legislative Assembly appeared before the Committee representing his wife Ellen, owner and operator of the Brabant

Fishing Lodge on the Mackenzie River. Mr. Pollard, like many of the established hotel and/or lodge operators, told the Committee:

"...we do not belong to any organization in the Northwest Territories, any tourist establishment, organization, Northwest Territories Arctic Tourism or whatever they are called and we have not been contacted, to my knowledge, by any of those organizations to talk about any kind of tourism strategy. We are a premier lodge in the Northwest Territories and, as I say, we do business around the world. So, I would have thought that if somebody is doing something they might have contacted us and said, hey, look, we are doing something. Are you interested?" (Committee transcript, p.52)

Jim Peterson, representing Peterson's Point Lake Lodge, appeared before the Committee. Mr. Peterson is also the President of the Barrenground Caribou Outfitters Association, which has a membership of 11 outfitters. As an active member of the Northwest Territories Arctic Tourism Association, Mr. Peterson told the Committee that he had only very qualified support for the hotel room tax. When urged by the Committee to clarify his position, Mr. Peterson stated:

"We want to promote our industry, however, we do not want a tax. It is as simple as that. We do not. However, what alternatives do we have? What alternatives do we have as an industry?" (Committee transcript, p.14)

Mr. Peterson gave the Committee a long list of amendments and possible funding alternatives which the Minister of Finance had told him could be considered.

Mayors and Chambers of Commerce

In Hay River, both Mayor Duncan McNeil and Duane Morgan of the Hay River Chamber of Commerce spoke against the implementation of a hotel room tax. Likewise, in Inuvik, Mayor Peter Clarkson told the Committee his Council was opposed to the hotel room tax. Mayor Clarkson encouraged the government to look for other sources from within their current budget and if that was not possible, he urged the government to look at their priorities and search for further opportunities to save money. It was also suggested that any money generated in a region from the tax be reinvested in that region.

Aboriginal Leaders

The Committee heard from both Dene National Chief Bill Erasmus and Yellowknives Dene First Nation Chief Richard Edjericon. Both Aboriginal leaders spoke against the tax, citing legal, constitutional and treaty grounds as the

essence of their opposition. Chief Edjericon read to the Committee a unanimous resolution signed by all Chiefs of Akaitcho Treaty 8. The resolution stated that, "the imposition of a hotel tax of five percent by the Government of the Northwest Territories on the Akaitcho Dene people is a treaty violation" and that if such a bill is passed, "Akaitcho (will) take measures to stop the imposition of the tax on Akaitcho people".

Northwest Territories Arctic Tourism Association

Richard Lafferty, President of NWT Arctic Tourism (NWTAT) and his staff led the Committee through a very comprehensive presentation of the history and objectives of the Association. Mr. Lafferty assured the Committee that the Association had a broad representative base and said:

"It is a fairly broad and dynamic organization, and it is an aboriginal organization, which many people, including a lot of aboriginal leaders – perhaps they just do not know. We have been recognized by Aboriginal Business Canada as being an aboriginal organization, and we can access different programs for specific projects because of that." (Committee transcript, p.3)

Representing over 250 members from different sectors of the tourism industry, Mr. Lafferty explained the team approach that was used in the development of their tourism strategy ("*NWT Tourism – The 2006 Challenge*" and its companion document, "*Tourism in the Northwest Territories: Setting a Course for Action*"). The Committee was very impressed with the work that the NWTAT has done to date given the limited funds which are at the disposal of the Association and agrees with Mr. Lafferty, that "NWT Arctic Tourism achieves maximum results with a minimum budget".

The Committee advised Mr. Lafferty that the majority of hotel operators who appeared before them did not feel they had been involved in either the development of the five-year tourism strategy or the NWTAT annual business plan. In response to these concerns, Mr. Lafferty stated:

"Everybody is welcome to that plan. The Department of Resources, Wildlife and Economic Development has it. We work with them consistently with it. All 250 members have it, municipalities, the MLA's. It is out there.

If we have missed anybody, all that they have to do is, if they take out a membership in Northwest Territories Arctic Tourism, they get it automatically. If they do not have a membership then it is certainly not secret, by any means.

We encourage participation and input to it." (Committee transcript, p.30)

Suggestions for Alternative Funding Sources:

On November 8, 2000, during his closing remarks on the principle of the Bill, the Minister of Finance told the House:

"I listened carefully today for some idea on an alternative by those people who opposed this. I did not hear the alternative. I do not know what it is. It is easy to say find it within, but you can only do that for so long. I was hoping to hear an alternative today. I was hoping that somebody would say instead of doing this, do this, but I did not hear that. I just hear people who are opposing it, saying we need more dollars in tourism. I think everybody said that. We need more dollars. We all agree with that. I do not think anybody disagrees with the need for dollars, but where do we get them from? How do we do this?" (Hansard, November 8, 2000, p.809)

The Committee strongly agrees with the Minister that there is an urgent need for "more dollars in tourism". On a positive note, the Committee heard many opinions on alternative ways of working which would provide not only a badly needed infusion of funds into the tourism industry, but, an opportunity or "flash point" for building consensus among all stakeholders.

We heard from Charles Dent, MLA for Frame Lake, who told the Committee:

"One of the new initiatives that the Premier talked about was maximizing northern employment. Is tourism not part of that initiative? Does tourism not provide an awful lot of jobs in our economy? So why would that not be part of maximizing northern employment? Are we only able to find money to fund other opportunities in mining, oil and gas? People keep talking about the importance of tourism to our economy. Why then do we not find the money to invest in it that we do for the other initiatives?" (Committee transcript, p.21)

Yellowknife City Councilor, Dave Ramsay, spoke to the Committee on behalf of the Yellowknife City Council. Mr. Ramsay encouraged:

"the GNWT to consider all other options for increasing the amount of funds allocated to tourism marketing and development prior to implementing this proposed hotel tax. Options may include finding a new revenue stream such as insisting on a new economic development agreement with the federal government, increased control over non-renewable resource royalties with a percentage rolled into a tourism fund." (Committee transcript, p.33)

Jim Peterson (Barren Ground Caribou Outfitters Association) suggested that revenues from license fees, trophy fees and other direct user costs be specifically directed back into tourism development. (Committee transcript, p.12) During his presentation to the Committee, former MLA John Pollard, referred to Bill 13 as "a skinny tax" and noted that, "if the tourism industry were to be able to take a look at the way the monies are being spent right now, maybe you would not have to go this route of a new tax." (Committee transcript, p.66)

Conclusion:

After a detailed review of what we read and heard during our Committee hearings and following productive discussions with the Minister of Finance, a majority of the Committee has come to a position that we cannot support the implementation of the Hotel Room Tax.

We have heard loud and clear that the tourism industry is in dire need of additional funding. In light of this and our present fiscal position, we urge the Minister to work with all stakeholders to develop some of the creative suggestions we heard during our review. In particular, we recommend that the Minister make available to the NWTAT, *without qualification*, an additional \$375,000 from internal RWED reallocations.

The Committee is very encouraged that the public review process acted as a catalyst for raising the public's awareness of important issues surrounding the funding challenges facing the tourism industry. Members are hopeful that the Minister of Finance and RWED and all stakeholders will take this opportunity to rise to the challenge of building consensus so that all parties can be part of the solution. In closing, the Committee can do no better than repeat the impassioned words of Jim Peterson, President of the Barren Ground Caribou Outfitters Association:

"Tourism is characterized by unique and powerful links to vital issues of the day. Perhaps most fundamentally, tourism raises those issues of national identity and culture that are central to the sense of who we are. Tourism serves as a bridge between the Northwest Territories, southern Canada, the United States, and the rest of the world. Tourism helps the Northwest Territories strengthen its position by helping to forge ties of familiarity and friendships with the national and international community in promoting us as a world class destination. As we project the best possible image of ourselves to the world, we are forced to clearly express what it means to be a Northerner." (Committee transcript, p.4)

LIST OF PRESENTERS

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Public Hearings on Bill 13 – *Hotel Room Tax Act*

**Inuvik, Hay River and Yellowknife
February 5-9, 2001**

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1. **Mr. Dennis Zimmerman**, Manager, Inuvialuit Tourism
 2. **Mr. Vince Brown**, Chief Financial Officer, Mackenzie Delta Hotel Group
 3. **Mr. Peter Clarkson**, Mayor, Town of Inuvik
 4. **Mr. Duane Morgan**, President and **Ms. Doreen Farrants**, Vice President, Hay River Chamber of Commerce
 5. **Mr. Don Fergusson**, Owner/Operator, Caribou Inn/Migrator Inn/Pelican Rapids Inn and Vice-President of the NWT Hotel Association
 6. **Mr. Duncan McNeill**, Mayor and **Ms. Diana Ehman**, Councillor, Town of Hay River
 7. **Ms. Beth Phillip**, Owner/Operator, Snowshoe Inn, Fort Providence
 8. **Mr. Don Fergusson** (on behalf of **Mr. Norman McGowan**), Owner/Operator, Twin Falls Inn, Enterprise
 9. **Mr. David Burger**, Manager, Caribou Inn/Migrator Inn
 10. **Mr. John Pollard** (husband of owner), Brabant Fishing Lodge
 11. **Mr. Jim Peterson**, Owner/Operator, Peterson's Point Lake Lodge and President, Barrenground Caribou Outfitters Association
 12. **Mr. Charles Dent**, Member of the Legislative Assembly for Frame Lake
 13. **Mr. Bill Erasmus**, National Chief, Dene Nation
 14. **Mr. Dave Ramsay**, Councillor, City of Yellowknife
 15. **Mr. Richard Lafferty**, President, Northwest Territories Arctic Tourism
 16. **Mr. Harry Symington**, President and Chief Operating Officer of Regency International Hotels (Explorer Hotel/Discovery Inn) and President of the NWT Hotel Association
 17. **Hon. Joseph Handley**, Minister of Resources, Wildlife and Economic Development
 18. **Mr. Richard Edjericon**, Chief of the Yellowknives Dene First Nation, on behalf of the NWT Treaty 8 Tribal Corporation

Standing Committee on Governance and Economic Development
 Bill 13 - *Hotel Room Tax Act*

WRITTEN SUBMISSIONS REGISTER

<i>Title</i>	<i>FirstName</i>	<i>LastName</i>	<i>Position</i>	<i>Organization</i>
Mr. and Mrs.	Roger and Jackie	Kuptana		Kuptana's Enterprises
Mr.	Tim	Heins	General Manager	Grey Goose Lodge Ltd.
Mr.	Bryce	Fraser		Portage Inn
Mr.	Jack	Rowe		Homesteader's Inn
Ms.	Richard	Lafferty	President	NWT Arctic Tourism
Mr.	Chuck	Davidge		Ptarmigan Inn
Ms.	Beatrice	Campbell	President	NWT Seniors' Society
Mr.	Ernest	Pokiak	Mayor	Hamlet of Tuktoyaktuk
Mr.	Gordon	Van Tighem	Mayor	City of Yellowknife
Mr. and Mrs.	Nick and Karen	Sibbeston	Owner/Operators	Bannockland Resorts Ltd.
Mr.	Kevin	Diebold	President	NWT Chamber of Commerce
Mr.	Richard	Gordon	Mayor	Hamlet of Aklavik
Mr.	Duane	Morgan	President	Hay River Chamber of Commerce
Mr.	Duncan	Canvin	President	Fort Simpson Chamber of Commerce